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Keep the Faith in Your Workplace Savings Plan

Why it's still a great vehicle for your retirement savings—whether the market is up or down.

While it's not unusual to feel a bit anxious when the financial markets are volatile—as they certainly were in 2008—it's helpful to remember two things. First, your best bet for a secure retirement is to stick to a long-term strategy designed to help you meet long-term objectives. Second, your workplace retirement savings plan is an incredibly powerful ally in your efforts to reach those goals—no matter how the financial markets behave in the short run.

Most workplace retirement savings plans provide an array of benefits that makes investing in them a wise decision whether the market is rising, falling, or holding steady. Here are the key reasons why your workplace plan should be a significant part—very likely the centerpiece—of your long-term savings strategy.

Pretax contributions.

The money you contribute to your workplace savings plan is deducted

from your paycheck *before* taxes are withheld, thus lowering your current taxable income. So you'll owe Uncle Sam less than you would if you didn't participate in the plan.

Eventually you will have to pay taxes on the assets in your workplace plan, but there's a good chance you'll be in a lower tax bracket when you withdraw the money in retirement. Meanwhile, you can take advantage of another nice tax benefit, known as tax-deferred growth.

Tax-deferred growth.

The money in your workplace savings plan grows tax deferred, meaning you don't pay taxes on it until you withdraw the funds in retirement. Since your nest egg doesn't take an annual tax hit, it has the potential to grow more than it would in a taxable account that held the same investments—which could make a significant difference in the amount you can accumulate over time. "Investors

often underestimate the value of this tax deferral," says Adam J. Leavitt, a CERTIFIED FINANCIAL PLANNER™ with Hogan & Slovacek, P.C., in Tulsa, Okla. "The fact that investment gains are not eroded by taxes each year can have a considerable compounding effect on your portfolio value."

The employer match.

A match is meant to encourage you to join the plan—and it's a pretty good incentive. Your company will typically match your contributions up to a certain dollar amount or a percentage of your salary. "It's like getting free money," says Leavitt. "Think of it as a bonus. Who would turn down a bonus?"

Alas, a surprising number of people actually do turn down matching contributions by failing to participate in an employer-sponsored retirement plan. Don't make that mistake. Try to contribute at least enough to qualify for the full employer match.

And be sure to note the details of your employer's vesting policy, which determines how long you have to work for the company in order to take the matching contributions with you when you leave. The typical vesting period is between three and five years.

Dollar cost averaging.

Your contributions to a workplace retirement savings plan are made via automatic payroll deductions. As a result, you avoid the temptation to skip contributions. Since you don't see the money, you're not inclined to spend it elsewhere. What's more, you continue to contribute regardless of how the market is behaving.

Investing automatically can have a significant impact on your long-term returns. In effect, you're practicing dollar cost averaging, a strategy that calls for investing the same amount of money at regular intervals and that is designed to reduce the average price you pay for your investments.

Here's how it works: Say you contribute \$250 from every paycheck to your workplace plan. When the market is up, shares of mutual funds are more expensive, so you'll be able to buy fewer of them. When it's down, shares drop in price, allowing that same \$250 to buy more shares—which positions you for greater growth potential when the market rebounds.



Dollar cost averaging also allows you to remove emotion from your investing decisions—another factor that can help boost your savings over the long term.[†] “The best thing to do is just keep investing, whether stocks are up or down,” says Leavitt. “Workplace retirement plans’ automated contributions make it easy to do just that.”

Portability.

You can take your retirement savings with you when you change jobs. Many workplace plans will accept rollovers from your previous employer's plan, meaning you can hold all your workplace retirement savings in one account. Investment choices and expenses vary from employer to employer, however, so be sure to investigate each plan before deciding to combine these assets.

Alternatively, depending on your vested account balance and the provisions of your plan, you may have the option of keeping the funds there. Or you can roll over the account into an individual retirement account (IRA), where you may have even more options for investing your savings.

“For the average person, a workplace retirement plan offers the most painless method of accumulating wealth,” says Patrick Doland, a CERTIFIED FINANCIAL PLANNER™ with Reason Financial Advisors, a fee-only financial planning firm in Northbrook, Ill. “The sooner you get started and the more you invest in your plan, the higher the quality of life you can have after you retire.”

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

[†]Dollar cost averaging does not ensure a profit or guarantee against loss in declining markets. For the strategy to be effective, you must continue to purchase shares both in market ups and downs.

What Should You Do Now?

Five prudent steps to consider

By William B. Ebsworth, CFA, Chief Investment Officer, Strategic Advisers, Inc.

In 2008, market volatility shot up to its highest level since 2002, as investors weighed the impact of ongoing financial and economic events. The reality is that no investment is sheltered completely from losses. But there are prudent action steps you can consider:

Step #1: Diversify.

Broad diversification—the concept of not putting all your eggs in one basket—can help ensure that your exposure to any individual investment is limited. However, the benefits of diversification are often not obvious over very short periods, particularly in down markets when different investments can all appear to decline together. In fact, diversification's value is often only clear when you look back and see how prices behaved over longer time periods.

Step #2: Allocate assets.

Asset allocation means finding the right mix of stock, bond, and short-term investments that makes sense for your risk tolerance,

time horizon, and liquidity needs. Depending on your experience and comfort with complexity, you can maintain appropriate asset allocation using individual securities or funds. However, not all asset classes may be appropriate for you, and allocation is a very personal decision.

Step #3: Rebalance to maintain your asset allocation.

In light of recent sharp price movements, now may be a good time to check your asset allocation across your Fidelity and non-Fidelity accounts. Are you diversified? Is your asset allocation where you've decided it should be?

Please remember that neither diversification nor asset allocation ensures a profit or guarantees against loss.

Step #4: Consider taking a loss for tax purposes.

For your taxable accounts, a down market may be a good time to

consider realizing losses in investments that have declined and investing the proceeds in a fund or security that offers similar exposure. Professionals call the loss a “tax asset” because it may be deductible in whole or in part against your income or future gains. Of course, it's critical to understand the mechanics and rules before you act, so you should consult with a tax professional.

Step #5: Beware of psychological traps.

It's important to beware of psychological traps that even experienced investors can fall prey to. One is a human tendency to be more comfortable taking risks in up markets than in down markets. This leads to a danger of buying and selling, or increasing or decreasing your portfolio risk, at the wrong times. Stay steadfast in your investment approach for long-term investment needs rather than letting short-term market movements influence your activity.

Keep in mind that while no one can accurately predict the duration or depth of any down market, markets have survived many tumultuous events over the past 30 years.



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The Annual Checkup

An important pit stop on the road to financial freedom

A yearly financial checkup that includes the following steps can help you identify trouble spots and successfully plan for the future.

Update your budget.

When prices rise, you may need more cash to cover expenses. Use online banking tools to track your spending, and keep in mind that life-changing events, such as the birth of a child or buying a new home, should be assessed and saved for separately. Don't think of your budget as a constraint on spending, but as a plan to ensure that you fund what matters most to you.

Check your emergency fund.

Today's volatile economy underscores the wisdom of keeping enough money in a liquid, interest-bearing account to cover three to six months of current expenses—so you can manage emergencies such as illness or unemployment without tapping investments or retirement savings.

Review your investment mix.

Over time, the percentage of stocks, bonds, and short-term investments in your portfolio can shift away from your original strategy. To maintain an investment mix based on your age, risk tolerance, and time horizon, review and rebalance your portfolio at least once a year.

Evaluate your health benefits and insurance.

Consider whether your current health insurance plan still meets your needs and review your life, homeowners/renters, and auto insurance to ensure you have adequate protection.

Check your credit score.

Routine credit checks can uncover costly mistakes on your credit report and can protect you from identity theft. Request a free report once a year through any of the three major credit agencies:

Equifax, 800-685-1111;
Experian, 888-397-3742; or
TransUnion, 800-888-4213.



Review your legal documents.

Update your will, power of attorney, or health care proxy and make sure that beneficiary designations on retirement accounts and life insurance policies are current and reflect your wishes. Be sure to tell trusted family members where to find your financial and legal documents.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

The information provided in this newsletter is general in nature and should not be considered legal, tax, or investment advice. Consult with an attorney or investment professional to discuss your specific situation.

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